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A lesson on how not to succeed

Intelligence service lacked business sense

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WASHINGTON — Across the Potomac River from Washington, in an office full of furniture upholstered in gray wool pinstripes, a caretaker crew is mopping up the remains of a company that newspapers once portrayed as the world's most ambitious private intelligence service.

The company, called IRIS (for International Reporting Information Systems), began with the boast that it would surpass the CIA in preparing worldwide, computer-distributed analyses of economic and political events for government and corporate clients.

It ended this month as a $15 million fiasco. According to many involved, the tale has a moral: What works in the high-powered world of government and diplomacy does not necessarily work in the more down-to-earth world of business.

Most of the company's cast of former diplomats, State Department veterans, CIA officials and prominent journalists has departed — their generous salaries cut off by an abrupt bankruptcy.

The massive Burroughs computer, modeled on one designed for the CIA and billed as the most sophisticated of its kind, has been unplugged and repossessed.

What remains is a knot of legal claims — totaling hundreds of thousands of dollars — and a story.

"It could almost be a business school case study in how not to manage a new venture," said Lee H. Stiehl, who was fired after 10 weeks as IRIS vice president for marketing.

In a way, IRIS was conceived with the fall of the shah of Iran in January 1979. The collapse of the Iranian regime sent shudders through international business and financial circles that had been caught unaware.

So when Anthony Stout, a Washington publisher, approached international investors in 1981 with an idea for a new intelligence network to prevent future surprises, he found a willing audience.

Stout persuaded a group of banking, finance and insurance companies — nearly all of them European — to put up $15 million for a system that would give big corporations and interested governments an eye on world events.

The concept was to gather expert reports from around the globe, analyze them in detail, file them in the computer and distribute them over a customized electronic network.

Stout, who later was demoted, began assembling a cast of big-name talent, offering salaries that ranged up to six figures.

There was an "International Advisory Committee" that included former British Prime Minister Edward Heath, former Defense Secretary and World Bank President Robert McNamara, and former Cabinet members from France and Colombia.

The president of IRIS was Barry Kelly, who came from the CIA. Senior Vice President Paul Boeker was a former ambassador to Bolivia, one of several senior State Department veterans. In all, nine of the top 10 executives came from the government, six of those from intelligence or defense agencies.

To assemble the worldwide network of correspondents, who would feed the computer, IRIS recruited journalists from The New York Times, the London Observer, The Times of London and other publications.

Early press reports dramatized the CIA connections.

"This spy stuff was all b.s.," said Chris Nelson, who was an Asian analyst. "IRIS was using completely legitimate, above board and on-the-record sources."

But according to many associated with IRIS, the real problem was not that it looked like a government enterprise but that it was run like one.

Managed by career diplomats and bureaucrats inexperienced in business, IRIS spent money freely, made decisions ponderously, and tried to sell its services through what one insider called "a sort of diplomatic buddy system."

"We'd have a three- or four-hour meeting on some very minor point," Nelson said. "Then the next week you'd sit through another meeting on the same thing. That may be the way politics and diplomacy work, but it's not the way the business world works."

For more than a year, for example, IRIS never made an organized marketing effort.

When IRIS collapsed a few weeks ago, the computer was on the verge of being operational, and the reporting staff was beginning to produce country-by-country analyses of fairly high quality. But IRIS did not have a single signed contract with a customer willing to pay the hefty annual fees IRIS wanted to charge — $100,000 for companies, $500,000 for governments.

One reason for the lack of customers apparently was the uncertainty about exactly what IRIS would be selling.

Some participants wanted IRIS to focus on general analysis. Others favored an emphasis on customized reports tailored to each client's interests.

"They weren't really sure what business they were in," said David B. MacNaughton, chairman of an Ottawa firm that operated as IRIS' Canadian arm.

When things started looking bleak, a number of insiders allege, the IRIS executives resorted to another tactic not unheard-of in government: They fudged the figures.

Last summer, one major investor, the Swedish insurance firm Skandia, hired an accountant to prepare monthly reports on IRIS. According to one source who read them, they showed signs of disarray. Other major investors included Bank in Liechtenstein, Banco de Bilbao in Spain, Henry Ansbacher Investments Ltd. in London, and Government Research Corp., a Washington, D.C., publishing firm.

In October, IRIS hired a marketing expert, Lee Stiehl.

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Stiehl said he drafted a detailed business plan that predicted IRIS would wait another three years, and lose another $20 million, before it broke even.

But by the time top IRIS managers had doctored the estimates and sent them to investors, Stiehl said, they showed the company would break even in 1983. Stiehl was fired in January.

Stiehl said he believes the IRIS executives may have genuinely believed their optimistic forecasts, but they "inflated" the figures because they knew the investors would not put up another $20 million.

The investors voted unanimously to pull the plug.

According to bankruptcy court records, IRIS owes more than $4 million, most to employees; Burroughs Corp. is owed $693,458; $200,000 is owed other computer-equipment suppliers.

None of the company's top officials is willing to talk on the record, but privately they point the blame at the investors.

"They never understood the information business," one top IRIS executive said. Later, he contended, the backers took to squabbling among themselves and finally pulled the plug "just as we were ready to make a go of it."